Economic Trends

Alberta's economy continues to lure migrants

Strong economic conditions continue to attract people to Alberta. This is increasing the supply of labour while raising housing demand and consumption in the province. The business sector is benefitting from higher energy prices, with rig activity and production accelerating. This month's inFocus takes a closer look at Albertans' spending patterns.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	May	2,275	+3.2%
Unemployment Rate	May	4.6%	-0.2 p.p.
CPI Inflation (unadjusted)	May	2.5%	+0.2 p.p.
Retail Sales	April	$6.5B	+7.0%
Housing Starts (annualized)	May	33,945	-19.5%
Rigs Drilling (unadjusted)	June	150	+29.7%
Manufacturing Shipments	April	$6.6B	+10.7%
Exports (unadjusted)	April	$10.4B	+26.2%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Household Sector

Strong job growth continues

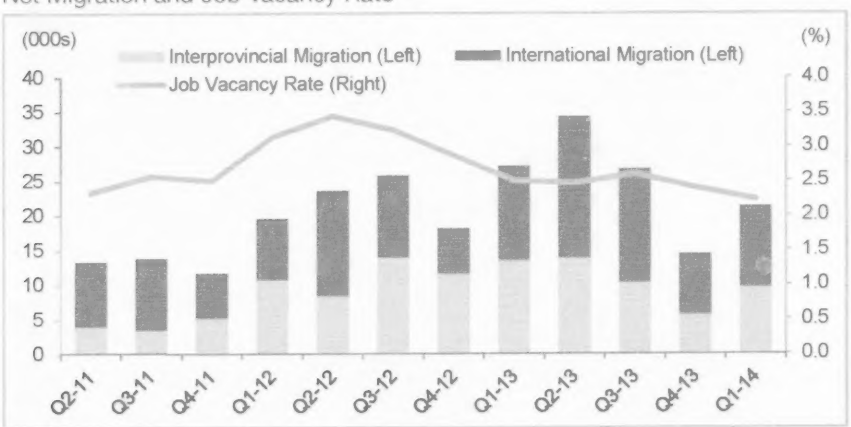
Alberta remains the nation's job growth leader. In the first five months of 2014, the province added 76,400 jobs, an increase of 3.5% from the same time last year. All of these jobs are in the private sector, with both full-time and part-time being added. While 2012 was the year of goods-producing sector jobs, the service sector led in 2013. So far in 2014, job growth in both major sectors has been about the same. While the service sector has seen strong and stable growth, employment in the goods sector continues to be more volatile.

Migrants ease labour pressures

Alberta continues to attract more people from other provinces and internationally. The province added 21,000 people from other jurisdictions in the first quarter of 2014, the 13th straight quarter Alberta has led all provinces in population growth. The influx of people over the past couple years has filled job vacancies. While Alberta still has the highest job vacancy rate of all the provinces (the number of vacancies as a percentage of total positions in the province), the rate has been decreasing from its high of 3.5% in April 2012. Since this peak, Alberta has welcomed over 191,000 people, and over this time period, the job vacancy rate has dropped to 2.3% (Chart 1).

Chart 1: Migrants help to fill job vacancies

Net Migration and Job Vacancy Rate



Source: Statistics Canada

Looking for shelter

The impact of net migration is also being felt on Alberta's housing market. The rental market, where many migrants start, remains tight. Alberta had the lowest rental vacancy rate in Canada in April, at 1.8%. This is up slightly from the same time last year, but much lower than the 3.0% in April 2012. The lack of available rental properties has put pressure on Alberta rents, which have risen 7.3% year-over-year (y/y) in urban centres of 10,000+.

Both existing and new housing markets have also been tight. Existing home sales are up 15% y/y in May, while the average resale price was up 5.0% y/y. In the first five months of 2014, housing starts are 4.6% higher than the same time in 2013.

Pressure on household expenses

Alberta's inflation began to push higher last year, and has held above 2% since December. Headline CPI inflation in May is currently sitting at 2.5%. Owned accommodation costs have been the major contributor, reaching 4.0% in May 2014, mostly because of increasing replacement and insurance costs. Food is another contributor, as inflation has mainly held above 2% since February 2013. While meat prices had been dropping steadily in 2012 and 2013, the beginning of 2014 has seen very steep increases. Price increases of fresh fruit and vegetables have been above 3.4% y/y in every month since February 2013.

Changes to the Temporary Foreign Worker (TFW) program

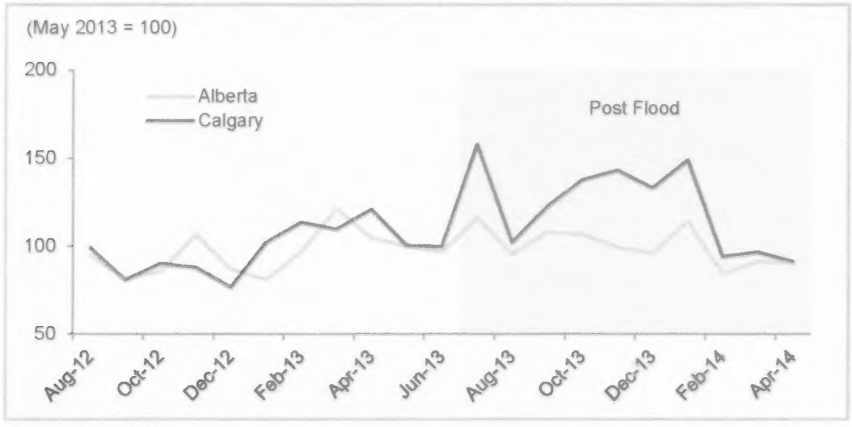
The federal government recently announced changes to the TFW program. The moratorium on food service workers is now permanent in high unemployment areas (above 6%), while the ban has been lifted in those areas with low unemployment (like Alberta). A more stringent Labour Market Impact Assessments will require greater explanations as to why Canadians were not hired. For low-wage positions, there will be a 10% cap of TWFs for employers with 10 or more workers, phased in over the next three years. Fees will also be increasing to $1,000 per assessment from $250.

Alberta Business Sector

Global instability lifts oil prices

Oil prices have a large impact on Alberta's economy because they affect the value of energy shipments and influence investment decisions. Global oil prices remain elevated due to unrest in Ukraine and more recently in Iraq. The escalating conflict in Iraq has created fears about oil exports from the region. Iraq is the seventh largest crude oil producer. Since the beginning of June, Brent crude has averaged close to $US110/bbl, while WTI has remained above $US100/bbl. The spread between WTI and WCS has narrowed in recent months, hovering around $US20/bbl. This is in part due to increased rail capacity, which has helped alleviate transportation constraints in Alberta.

Chart 2: Construction activity jumped in Calgary post flood
Building Permits



Source: Statistics Canada

A year after the flood

The southern Alberta flooding of 2013 affected over 30 communities, and damaged or destroyed roughly 80 schools, 10 healthcare facilities, 14,500 houses and shutdown just under 1,000 km of highways. The Insurance Bureau of Canada estimates losses at $1.72B, the largest insurable event in Canadian history. Overall, the 2013 flood is the most expensive disaster in Canadian history, with an estimated total cost of about $6 billion (Source: Municipal Affairs, Flood Recovery: One-Year Report, June 26,2014).

Recovery, reconstruction, and flood prevention work have all boosted already strong construction activity in southern Alberta. Calgary's building permits spiked in July 2013, and have grown more than the provincial index since the flood (Chart 2). Construction employment in the Calgary economic region, which includes High River, has grown by 12.5% since the month of the flood. The increased construction activity has likely contributed to growing cost pressures in Calgary. CPI inflation in Calgary has averaged 0.9 percentage points above that of Edmonton since the flood.

The Alberta Government has dedicated over $1 billion over the next three years to flood mitigation and prevention projects, which will add to construction activity in the province.

Higher production and rig activity coincide with elevated prices

Alberta has experienced stellar growth in international goods exports and manufacturing shipments through the first four months of 2014. Alberta's crude oil and natural gas producers are benefiting from higher prices, with output and prices pushing energy exports up 25% year-to-date. Likewise, chemical and machinery producers have seen shipments and exports increase in recent months, thanks in part to higher prices.

Drilling activity in the province has picked up in recent months. Encouraged by higher prices, the number of active rigs has increased more than 20% through April and May. Moreover, rigs are drilling further, with meters drilled per well increasing for both crude oil and natural gas.

Federal government approves pipeline with conditions

The federal government approved the Northern Gateway Pipeline, which would ship Alberta crude to the west coast of BC and on to international markets. The approval is subject to 209 conditions recommended by the National Energy Board. Due to pipeline constraints, Alberta has faced challenges accessing markets for its rising oil production, increasingly relying on rail. According to the Canadian Association of Petroleum Producers, there are currently 8 operational crude oil rail loading terminals in Alberta, with 4 others planned to begin operation in 2014.

Outside Alberta

Canadian economy struggles to rebalance

When the Canadian economy fell into recession in 2009, it was spending by households and governments that powered the recovery. It was expected that as the economy expanded, there would be a rebalancing of demand away from household and government spending and towards exports and business non-residential investment. This rotation has been slow; government and household spending growth has weakened, and non-energy exports and investment have failed to pick up the slack. The result has been slowing real activity, with GDP growth slowing to an annual rate of 1.2% in the first quarter of 2014. Exports are particularly worrisome. Despite rising foreign activity, exports are still below the pre-recession peak and have changed little since the end of 2011 (Chart 3).

Chart 3: Canadian exports lagging improvement in foreign demand
Canadian Real Exports vs Foreign Activity Measure

Source: Statistics Canada and Bank of Canada Foreign Activity Measure

Non-residential investment, meanwhile, has changed little since the second quarter of 2012.

US recovers lost jobs

It took over six years, but the US economy has finally recovered the jobs it lost during the 2008-09 recession. Some industries have done better than others. Among one of the jobs leaders has been the energy sector, where new technologies have sparked a resurgence in the US oil and gas sector. Some of the poorest performing industries were those connected to the collapse in the US housing market such as construction and real estate. The recovery comes at a time of relatively strong employment growth, with the US adding more than 200,000 jobs per month between February and May. This stands in contrast with Canada, where employment recovered quite quickly, but job growth has been weak of late.

Market tranquility

Market volatility, as measured by the Chicago Board Options Exchange (CBOE) volatility index (VIX), has fallen to the lowest level since early 2007. Volatility rocketed at the time of the financial crisis, flared up again during the Eurozone debt crisis in 2010 and again spiked as a result of the US debt ceiling crisis of 2011. Of late, these sources of volatility have been absent. Stock markets globally have been improving, the Eurozone has stabilized, and lawmakers in the United States came to an agreement over the budget. While the developments are welcome news for the global economy, the Federal Reserve has expressed concerns that low volatility may cause investors to take on too much risk. Stock markets are up over last year, with the Dow Jones Industrial Average up 15%, the S&P 500 up close to 25% and the Nasdaq up 30%.

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inFocus

Why do Alberta households spend more?

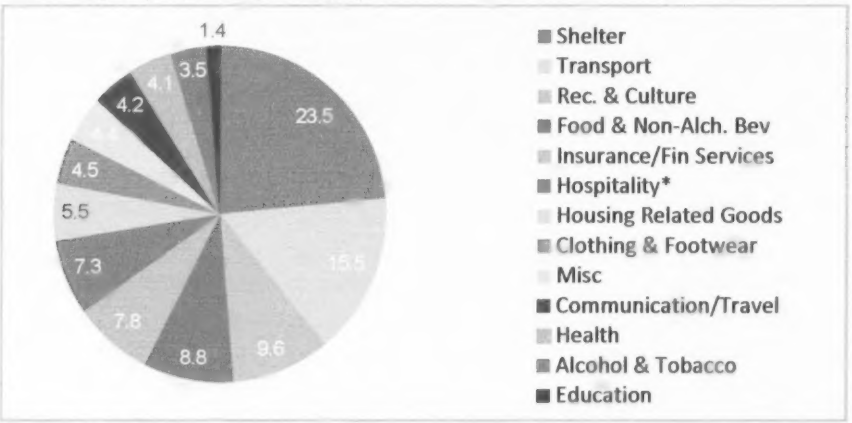
Albertans have higher income levels compared with the rest of Canada, and predictably, spend more per capita on consumer goods and services. Comprehensive data are now available from the provincial economic accounts that shows where Albertans are spending their money, and enables us to look more closely at the spending gap between Alberta and the rest of Canada.

Higher incomes drive consumption

Albertans' spending patterns are influenced by both income and demographics. Per capita household income in Alberta was almost 30% higher than the Canadian average in 2012. Thanks to a strong economy, wages and salaries have risen across almost every industry, leading to income growth that has outpaced the rest of Canada. High engagement in the labour force, demonstrated by Alberta's high participation rate, contributes to higher household incomes as well.

Demographics also play a key role in influencing consumption patterns. Alberta's population is relatively young compared with the Canadian average. A larger portion of households are maintained by people under the age of forty, and a smaller portion maintained by people over 65. This demographic trend has an influence on the purchasing patterns of Albertans.

Chart 1. Alberta Per Capita Household Spending, 2012
Percentage by Spending Category

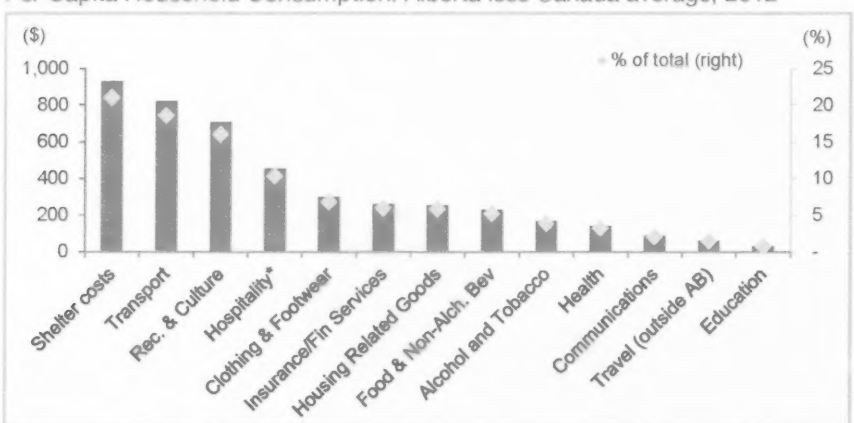


Source: Statistics Canada
* Hospitality includes Food, Beverage, and Accommodation services

Where do Albertans spend?

The most recent expenditure data available for Alberta shows that on average, Albertans spent around $33,000 per capita on goods and services in 2012. Almost a quarter of this spending is on shelter (Chart 1), which includes housing, maintenance, and energy. Transportation is another large spending category, as well as recreation & culture and food & non-alcoholic beverages. These four categories account for almost 60% of the overall per capita spending on goods and services.

Chart 2. The Spending Gap
Per Capita Household Consumption: Alberta less Canada average, 2012



Source: Statistics Canada
* Hospitality includes Food, Beverage, and Accommodation services

Explaining the spending gap

Alberta per capita household spending far outstrips all other provinces. In fact, Albertans spent approximately 16% more on goods and services than the Canadian average in 2012. This amounts to a annual spending gap of around $4,400 per capita.

The Alberta-Canada spending gap is spread out across almost all the major expenditure categories (Chart 2). About 21% of the gap, or around

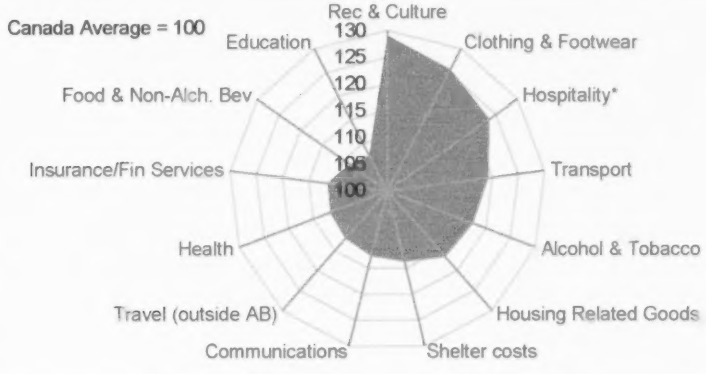
$930, is accounted for by higher shelter spending in Alberta. Transportation also contributes to the gap (19%), which reflects higher spending on average for vehicles in Alberta and a preference towards higher cost vehicles like SUVs, trucks, and luxury brands. The spending gap is also significant for recreation and culture (16%), which includes equipment for outdoor recreation, games, toys and hobbies, pets, jewelery, and gambling.

Discretionary spending especially high

Almost 35% of the spending gap between Alberta and the rest of Canada comes from spending that is more discretionary in nature. While there is no official definition of "discretionary", there are some items that are more discretionary than others, such as recreation and culture, restaurants, jewelry, and travel. Chart 3 illustrates that the largest percentage difference in spending for Albertans compared to the Canadian average is on more discretionary items. For example, Albertans spent almost 30% more on recreation and culture, and almost 15% more on hospitality, which includes food, beverages, & accommodation services. On the flip side, there is much smaller percent difference in the amount Albertans spend on food and non-alcoholic beverages (excluding restaurants) and health.

Chart 3. Largest % gap on more discretionary spending

Alberta Household Consumption per Capita (Ratio to Canada Average), 2012



Source: Statistics Canada

* Hospitality includes Food, Beverage, and Accommodation services

Chart 4. Discretionary spending in Canada linked to incomes

Per Capita Household Income and Discretionary Spending by Province, 2012

Source: Statistics Canada

* Includes recreation & culture, alcoholic beverages & tobacco, food, beverages, & accommodation services, personal grooming & appliances, jewellery, clocks, and watches, net expenditure abroad

Income linked to discretionary spending

Income influences heavily on spending patterns, particularly for discretionary items (Chart 4). Higher incomes leave room for more discretionary purchases. In addition, the province has a larger share of high-income earners compared to other provinces, which contributes to more discretionary spending.

Consumption supports economic growth

One of the key drivers of the Alberta economy is consumer spending. Household spending has increased at an annual rate of about 5.5% over the last four years. The ability of Albertans to spend over-and-above basic requirements contributes to overall economic growth and is an indication of positive income and job growth, and consumer confidence.

More income saved in Alberta

Despite higher per capita spending, Albertans spend a smaller share of their income than other Canadians. Alberta's household savings rate was 15.3% in 2012, well above the 5.0% national average. The savings rate is also supported by high income earners, as higher incomes enable consumers to spend more per capita, but save more proportionally.

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